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Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Thursday 12 January 1978

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National Intelligence Daily Cable for Thursday, 12 January 1978.

The NID Cable is for the purpose of informing senior US officials.

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POLAND: Lackluster Conference

The principal results of the Polish party's Second Conference and concurrent tenth Central Committee plenum, held from 9 to 10 January, were continuity both in economic and personnel policies. The lackluster performance of the party leadership will probably reinforce the Polish people's perception that the regime has been unable to develop new ideas for handling the nation's problems.

In his main speech to the Conference, party leader Gierek discussed Poland's economic difficulties in a broadbrush and familiar fashion. He made no mention of any structural economic reform or new incentive systems, resorting instead to exhortations that "we must do better."

He vowed greater efforts to increase agricultural output, housing construction, and production of consumer goods, but avoided specific proposals and promises. He did put the population on notice that food prices will "gradually" rise but made clear that these increases would be tied to higher agricultural output.

Gierek was also reticent on some sensitive political matters. He mentioned the Church only briefly, saying that the party will continue to promote good relations with the episcopate. He took only a mild and indirect slap at the "antisocialist activities" of Poland's dissident movement. His remarks on foreign policy reasserted Poland's close ties to the USSR and strongly seconded Soviet opposition to the neutron bomb.

There had been expectations in some Polish circles that Gierek would demonstrate a strong hand at the Conference, especially on economic policies, in order to counter a growing

sense of malaise. Some of his liberal supporters had pressed both for changes in the economic system that would force more efficient performance and for political changes that would give workers a greater sense of participation.

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[] That these demands were not heeded can probably be attributed to opposition from conservatives in the leadership to Gierek's cautious style and to fears that bold changes would add additional elements of instability to an already precarious situation.

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[] The absence of personnel changes suggests that the "winners" and "losers" in the policy controversies have not yet been sorted out. It may be that the balance in the Politburo is so close that even relatively insignificant changes cannot be made. []

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USSR: Attack on Spanish Communists

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[] *The Soviets have resumed their attack on the Spanish Communists with a denunciation of Manuel Azcarate, a close ally of party leader Santiago Carrillo. An article disseminated yesterday by TASS charged that Azcarate--and by implication Carrillo and Western Communists who share his views--has abandoned Marxism-Leninism and supported "imperialist" attacks on the Soviet Union.*

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[] Publication of the article, which appeared in the weekly *New Times*, ends the cease-fire in the war of words with the Spanish Communists that Moscow negotiated last September in order to avoid squabbles during the celebration of the 60th anniversary of the October Revolution.

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[] The article betrays particular sensitivity on the issue of "pluralism," by which the Soviets mean the proclaimed intention of the Spanish and other Western Communist parties to live by democratic standards and their criticism of dictatorial practices in the USSR. It charges that talk about pluralism amounts to a commitment to preserve "antisocialist ideology" and "capitalist property."

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[] Azcarate's criticism of the Soviet Union and his participation in conferences and symposia organized by "bourgeois

theorists" and "anti-Soviet propaganda centers" is characterized as aiding imperialist efforts to undermine the Communist movement from within and to set Western Communists against those of the East.

25X1 [] The article is equally vitriolic in charging that Azcarate would have the working class reject Marxism-Leninism. It warns that a retreat from Leninism would lead the working class onto "the road of social reformism" and "submission to the policies and interests" of the bourgeoisie.

25X1 [] Despite its narrow focus on Azcarate, there is little doubt that the article is aimed at a wider audience. The views attributed to Azcarate are of course those of the Spanish party, but many of them are shared by Italian and French Communists as well.

25X1 [] The timing of the article also suggests that it was meant for a wide audience. It appeared while a high-level Italian party delegation was in Moscow for talks with Soviet leaders and at a time when the Italian party is involved in delicate negotiations for a larger role in the government.

25X1 [] Moscow presumably intended the article to warn Western Communists against further criticism of the Soviet Union and to deter them from doctrinal innovations that would call into question the ideological foundation of the Soviet system. Moscow's quarrel with the so-called Eurocommunists has been fueled more than anything by the fears of the Soviet leaders that the doctrinal heresies of the Western Communists could find an echo in the USSR or Eastern Europe.

25X1 [] Predictably, the article stresses such achievements as the Soviet contribution to peace and national liberation. The Italian and French parties in the past have been reluctant to approve Spanish criticism that appears to overlook these achievements, and the Soviets may believe that they see a loophole they can exploit.

25X1 [] There is also a hint that Soviet policymakers have not been of one mind in dealing with the Western Communists. The erratic conduct of the quarrel with the Spanish party last summer gave rise to such suspicions, and rumors have circulated in Moscow that divisions on this question have reached Politburo level.

25X1 [] The article lends some support to these suspicions by concluding that those critics who charged that *New Times* had "overdone" its initial attacks on Carrillo and "exaggerated" the anti-Soviet tendencies of the "ideologues of Eurocommunism" have since been proved wrong. While these critics are identified as "Western press commentators"--and Italian and other Western Communist critics of the attacks on Carrillo are clearly meant--the argument seems cast for an internal audience as well. []

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PORTUGAL: New Government Near

25X1 [] *Portugal may have a new government by Sunday unless last-minute snags develop in interparty talks.* []

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25X1 [] *As many as four Center Democrats might receive cabinet positions in order to guarantee majority support in the legislature. The Socialists are seeking a separate understanding with the Communists in order to gain their support on critical legislative measures.*

25X1 [] The Socialists will reportedly offer Center Democratic President Freitas do Amaral the presidency of the legislative assembly, an office that has had little importance during the tenure of its Socialist incumbent. Center Democrats have requested cabinet positions for Amaral and party Vice President Amaro da Costa. Costa has reportedly already been offered the Foreign Ministry, but some Socialist officials say Soares is determined to keep this portfolio in Socialist hands.

25X1 [] Center Democrats will probably also be offered two or three additional ministries along with a number of lesser government posts. These concessions by the Socialists should help resolve outstanding disagreements concerning the level and scope of the Center Democrat's participation in a new government.

25X1 [] No progress has been reported on two other areas of dispute--the shape of a programmatic accord on financial policy and the timing of a separate agreement between the Socialists and the Communists--but Socialist and Center Democratic leaders are optimistic that remaining differences will be overcome.

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[] The Center Democrats have given the Socialists considerable latitude in their talks with the Communists and have even expressed a willingness to accept a pro-Communist independent in the government. They do not, however, go along with the Socialists' preference for declaring an accommodation with the Communists at the same time a new government is announced.

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[] Communist leader Alvaro Cunhal announced earlier this week that his party will not support a new government unless a concrete agreement is worked out with his party in advance. The Communists are anxious to protect advances made in areas of agrarian reform, nationalizations, and workers' rights. Portugal's largest trade union confederation--which is Communist dominated--has hinted publicly that its members would take to the streets before giving way to rightist policies.

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[] The Social Democrats, Portugal's second largest party, have now announced that they will remain in opposition despite some signs of a thaw in their relationship with the Socialists last weekend. A new government would therefore face opposition from the right and, on occasion, the left. This could rapidly undermine the alliance if it proves as fragile as many suspect.

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[] If a pact between the Socialists and Center Democrats is concluded, it will be the second time in less than two years that the Socialists have been bailed out by a last-minute understanding with the Center Democrats. In December 1976, the Center Democrats agreed to back the Socialists' 1977 budget proposal despite Social Democratic and Communist protests. In exchange, they were to have joined the Socialists in a coalition government that they thought would be formed within a year. []

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OPEC: Oil Production Capacity

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[] *//We have lowered our estimate of available crude productive capacity in member states of the Organization*

of Petroleum Exporting Countries to about 33 million barrels per day, a drop of more than 4 million barrels per day. This estimate implies that the real price of oil will begin increasing sooner than we had anticipated. The exact timing and magnitude of price increases will depend on demand, non-OPEC oil supplies, and OPEC pricing policy. OPEC oil production averaged about 31 million barrels per day last year. The Bureau of Intelligence and Research, Department of State, believes that this analysis is overly pessimistic--a worst case analysis.//

25X1 [] //The reduction of our estimate is based on new information on oilfields in several major OPEC producers and reflects technical problems in these oilfields that have led some cartel governments to impose production ceilings. In most cases, the new estimates do not involve changes in recoverable reserves; rather, they incorporate technical and policy constraints on the pace at which these reserves can be exploited.//

25X1 [] //A major factor in our capacity revisions is the increased control OPEC governments now have in determining production policy. Until recently, country production programs in OPEC countries were based largely on the oil companies' criteria of medium-term profit maximization. With nationalization, these criteria are changing. Most OPEC governments place a higher value on future as against present production and on current investments and practices to enhance long-run oil recovery.//

25X1 [] //The downward revisions in capacity estimates primarily affect Saudi Arabia, Abu Dhabi, Kuwait, and Iran. In Saudi Arabia, Aramco operates under a ceiling of 8.5 million barrels per day averaged over the year. Within this overall ceiling are technical restrictions on individual crude streams and particular fields. Abu Dhabi recently imposed output ceilings for 1978 on several fields because it believes that the earlier higher rates of output caused too much oil to be left in the reservoirs.//

25X1 [] //Kuwait has, for conservation reasons, arbitrarily restricted production since 1975 to a level about 1 million barrels per day below its operating capacity. Kuwait's very comfortable financial position enables it to take a long view of producing its oil resources.//

25X1 [] //We have revised Iran's capacity downward by
700,000 barrels per day. It will continue to fall for several
25X1 years until a massive gas reinjection program becomes effective.
[]

RHODESIA: Settlement Negotiations

25X1 [] *Rhodesian Prime Minister Smith and black nationalist leaders Bishop Muzorewa and Ndabaningi Sithole met yesterday for the third time in as many days in an effort to break the deadlock over white representation, the principal stumbling block in the internal settlement negotiations. Prior to the meeting, Smith met with white members of parliament and reportedly won their endorsement for a compromise he then presented to the nationalists. The nationalists have taken Smith's offer under advisement.*

25X1 [] //At issue is the number of seats to be reserved for whites in parliament once majority rule is attained, and for how long that reserved status would last. Smith regards such a provision as necessary to retain white confidence in a settlement.//

25X1 [] //The nationalists concede that white confidence must be retained, but they rejected Smith's demand for one-third plus one as contrary to the spirit of majority rule. Since the talks began on 2 December, both sides have made a number of proposals; they may now be close to agreement on that crucial issue.//

25X1 [] //Despite the optimism that followed yesterday's meeting, many other issues remain to be resolved before a settlement can be considered close at hand. Tied to and complicating the issue of white parliamentary seats is the question of whether there will be a single voters' roll or separate rolls for blacks and whites. Smith supports separate rolls.//

25X1 [] //The two sides may be able to agree on the composition of Rhodesia's security forces. Muzorewa and Sithole have no guerrilla forces under their command and see the necessity of maintaining most of the currently constituted forces. Smith reportedly has agreed in principle to accept blacks who support the nationalist leaders into the security forces, and both Muzorewa and Sithole are encouraging their supporters to volunteer.//
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IRAN: Economic Slowdown Last Year

25X1 [] Iran's gross national product grew only 3 to 4 percent last year in real terms compared with almost 14 percent in 1976. The slowdown mainly reflected a drop in oil production, which accounts for about 40 percent of GNP, but growth in the non-oil sectors of the economy also slowed significantly. Iran recorded another balance-of-payments surplus last year and its credit standing remains high. GNP is likely to rebound this year.

25X1 [] Iranian oil output fell 4 percent as a result of sluggish demand for oil produced by members of the Organization of Petroleum Exporting Countries. Also contributing to the decline was the Iranian oil price--on the high side of the OPEC price split during the first half of 1977.

25X1 [] The pace of both public and private investment lagged last year. Government spending was below budgetary authorizations and private investors were discouraged by continuing high rates of inflation and uncertainties concerning the government's fiscal and monetary policies. The cost of living increased about 25 percent in 1977, compared with 23 percent in 1976.

25X1 [] Economic expansion was also held back by the scarcity of skilled labor and the woefully inadequate rail and road distribution links.

25X1 [] The industrial and service sectors grew by 8 and 11 percent respectively, while agricultural output increased by only 5 percent. The construction sector probably outpaced the rest of industry, but it too was less buoyant than in recent years.

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[] Industry was particularly hard hit by electric power blackouts during the summer months, although normal summer factory vacations and the use of private power generators reduced the impact.

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[] Higher oil earnings because of higher prices together with sluggish imports gave Iran another balance-of-payments surplus last year. The current account surplus was on the order of \$6 billion and foreign exchange reserves increased from \$8.8 billion at the end of 1976 to \$11.5 billion in November 1977.

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[] GNP growth probably will rebound to perhaps 7 to 9 percent this year. Iran is likely to try to complete many of the ambitious development schemes under way without embarking on any major new projects.

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[] The balance of payments will remain well in surplus for at least several years as Iran continues to expand its official borrowing abroad to cover large portions of the financing for its development projects. Iran's credit standing remains high and Tehran continues to be able to secure loans at extremely favorable interest rates. []

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BRIEF

Namibia

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[] The Western five-power contact group has been unable to find a date acceptable both to South Africa and to the South-West Africa People's Organization for another round of talks on an independence program for Namibia. The contact group had proposed, and South Africa had accepted, meeting with each delegation separately in New York on 17 January.

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[] SWAPO, however, asked to delay the talks until 30 January, saying it needed more time to prepare its position. SWAPO may be seeking a delay because its president, Sam Nujoma, was recently hospitalized in East Berlin, purportedly for a medical checkup relating to his high blood pressure.

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[] The South Africans have rejected the 30 January date on the grounds that a no-confidence debate is scheduled in parliament on that day. The contact group is now considering possible alternate dates for the talks. []

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